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SUBJECT: FAYYAD LAYS OUT 2010 BUDGET AND PROJECT PRIORITIES

Classified By: Consul General Daniel Rubinstein for reasons 1.4 (b) and  
(d).

1. (SBU) Summary. Palestinian Authority (PA) Prime Minister Salam Fayyad told donors that the PA is likely to require USD 1.2 billion in external budget support in 2010, and urged early disbursement. He presented the PA's priority project list for 2010, which includes over USD 5 billion in projects, stressing that many of the projects were already underway and/or funded by donors, and that the projects would be many years in duration. He noted that a French proposal to host a donors' conference needed further discussion, but that such a conference would be most useful if held towards the end of the year. End Summary.

#### Fayyad Stresses Budget Support

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2. (SBU) At PA Prime Minister Fayyad's request, the Local Development Forum (LDF; a coordination body for donors in the West Bank and Gaza) met on January 14 in Ramallah. Fayyad used the meeting to present the PA's list of priority projects for 2010 and to outline the PA's upcoming 2010 budget. Speaking to about 50 local donor representatives, Fayyad noted that he had just spoken to Norwegian Foreign Minister Stoere, who had provided a positive report on January 12 donor meetings in Brussels. Fayyad stressed the importance of donors front-loading their 2010 budget support so as to secure predictable, consistent financing for the first six months "so that the PA can better manage its cash flow." (IMF Resident Representative Oussama Kanaan, later in the LDF meeting, echoed the need for this sort of predictability.)

3. (SBU) Fayyad expressed appreciation for donor support in 2009 and the commitments made so far in 2010. He commented positively on the fact that the USG had brought forward 2010 budget support to meet urgent needs at the end of 2009. He urged all donors to look at their bilateral assistance programs and encouraged "acceleration" wherever possible.

#### 2010 Budget to Continue Fiscal Tightening

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4. (C) The Prime Minister presented a brief outline of the PA's 2010 budget, which, he noted, remains under discussion in the Ministry of Finance. Fayyad said the PA did not want to finalize the budget until it is confident it has secured the necessary sources of financing. He told donors to expect a lower requirement for external budget support in 2010 of about USD 1.2 billion, down from USD 1.45 billion in 2009, based on tight controls on wage and recurrent expenditures and a reduction of net lending (estimated at USD 300 million for 2010, most of which is electricity subsidies). The PA expects net revenue in 2010 to grow 18 percent over 2009 (to

\$1.9 billion) and total expenditures to grow by only 3 percent (to USD 3.1 billion). Comment: This was the first most donors have heard of the 2010 projections, although the PM's Economic Advisor has provided us a more detailed written version in confidence. Post has emailed the document to NEA/IPA, SEMEP, and Treasury. End Comment.

15. (SBU) Fayyad said the 2010 budget would be another step towards self-sustainability, noting that the 2010 wage bill would consume a smaller percentage of domestic revenue and make up a smaller share of GDP. Saying, "We do not plan perpetual dependence on foreign aid," he stressed that the PA's focus in 2010 would be on boosting domestic revenue, including income tax and VAT collection, while continuing to reduce net lending. He said that any additional donor financing made available to the PA in 2010 would be used to address a rolling stock of arrears (estimated at USD 100 million) or to pay down the PA's commercial debt.

#### The PA's 2010 Priority Projects

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16. (SBU) "Don't be shocked," Minister of Planning Ali Jarbawi said as he introduced the PA's "Priority Interventions for 2010." The document contains USD 5.5 billion worth of projects that the PA considers a priority for 2010 and beyond. Jarbawi emphasized that the projects are to be implemented over a period of many years. Many of them are already on-going, he said, and others have been fully or partially funded, or pledged against by willing donors. Jarbawi and Fayyad both noted that the PA had attempted to integrate its state building plan into the last year of the

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existing reform and development plan, so as to give donors a priority list of projects. The full text of the PA's 2010 priority projects document is available on ConGen Jerusalem's unclassified intelink site ([http://www.intelink.gov/communities/state/pa\\_lecon](http://www.intelink.gov/communities/state/pa_lecon)).

17. (SBU) Jarbawi and Fayyad also predicted that actual development expenditure in 2010 will total approximately USD 670 million, in accordance with the three-year plan approved by donors in December 2007. Jarbawi noted that the Ministry of Planning is already preparing the next three-year reform and development plan, which will integrate the PA's development and reform priorities with the overall fiscal framework. Many, if not all, of the projects in the 2010 document that are not completed this year will be carried over into the next plan, to cover 2011-2013. The Norwegian chair of the LDF noted that he would convene informal consultations among donors and the PA to discuss how best to use the local aid coordination mechanism to support implementation of the 2010 priority projects, as well as to contribute to the development of the next three-year plan.

18. (SBU) In addition to supporting Fayyad's call for predictable budget support, the IMF Resident Representative said that the PA budget represented a significant shift in expenditures from wages and salaries to non-wage expenditures, which are more conducive to economic growth. He added that the 2010 forecast real rate of growth for the West Bank and Gaza (of seven percent) would require "real" private sector growth, driven by increased exports.

#### Paris Ready (Eager?) to Host

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19. (SBU) The French representative noted that Paris remains willing to host a donors' conference to secure pledges for the next three-year planning cycle. Fayyad responded that, "while the need for another conference is evident," the timing and content will need to be discussed, and it would logically occur after the production of the PA's 2011-2013 planning document. "A full-fledged conference is likely to be most useful towards the end of the year," he said. He

also noted that the donor community does not need "new mechanisms or structures." He called the 2010 document an "instrument" for donors and the PA to use to ensure maximum progress on the ground.

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